

Consumer confidence maintains a downward trend despite the increase in minimum wages

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- **Consumer confidence (December): 85.7 points; Banorte-Ixe: 82.5; consensus: 84.4 (range of estimates: 82 to 85.3 points); previous: 84.2 points**
- **Consumer confidence posted a 7.8% yoy contraction**
- **In seasonally adjusted terms, consumer confidence fell 0.1% m/m**
- **We believe that the 0.1% m/m contraction in December's consumer confidence was explained by the depreciation of the Mexican currency and the uncertainty surrounding Mexico's economic growth given the economic policies that the Trump administration could implement**
- **However, consumer expectations regarding the country and the household's future economic outlook increased as a result of the 9.8% increase in minimum wages**
- **The recently added "inflation expectations" indicator suggests that inflation will maintain an upward trend in 2017**
- **We expect a significant contraction in January's consumer confidence as a result of the liberalization of gasoline prices**

Consumer confidence fell 0.1% m/m in December. According to Banxico and INEGI's report, consumer confidence stood at 85.4 points in December, above our 82.5 points forecast (consensus: 84.4 points). This implies a 7.8% yoy contraction. In seasonally adjusted terms, consumer confidence posted a 0.1% m/m reduction.

Taking a look at the breakdown, consumers' expectations regarding the household and the country's future economic conditions increased by 1.7% and 0.5% m/m, respectively as a result of the 9.8% increase in minimum wages. However, expectations regarding the country present economic outlook fell 0.4%. In addition, the purchasing power component posted a 0.7% m/m reduction, as a result of the upward trend in inflation (refer to the table on the next page).

We believe that the 0.8% m/m contraction in consumer confidence was explained by the uncertainty surrounding Mexico's economic growth given the economic policies that the Trump administration could implement. In addition, we consider that consumers are also discounting a higher inflation, as a result of the higher pass-through effect of the depreciation of the Mexican currency to prices.

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Consumer confidence: December 2016

Seasonally-adjusted index

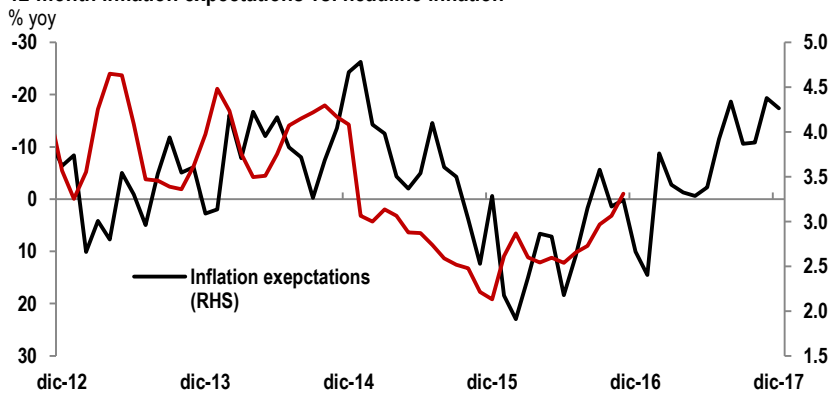
	Dec-16	Nov-16	%m/m
Headline index	85.0	85.1	-0.1
Household's			
Current conditions	96.3	95.6	0.7
Expectations	94.5	93.0	1.7
National			
Current conditions	79.2	79.5	-0.4
Expectations	75.3	74.9	0.5
Household's purchasing power	80.7	81.3	-0.7

Source: INEGI

Higher inflation expectations. *INEGI* also published the extended series of consumer confidence complementary indexes. Although these indexes are not included in the final weighting of the headline figure, they provide relevant information on the consumer's perspective regarding other economic indicators.

Among the 10 recently added complementary indexes, we highlight the upward trend in inflation expectations. In the particular case of this index, a fall suggests that consumers are expecting a higher inflation over the next 12 months. Analyzing the historical series, -and setting forward inflation expectations twelve months so they can overlap current inflation-, we can clearly see that consumers are discounting a higher inflation for 2017.

12-month inflation expectations vs. headline inflation



Source: Banorte-Ixe using INEGI's figures

We expect a significant contraction in January's consumer confidence. We believe that consumer confidence will post a sharp decline in January as a result of the increase in gasoline prices. Although the Ministry of Finance released this announcement on December 27, the last survey did not incorporate this effect since *INEGI* conducts the survey during the first three weeks of each month. However, it is very likely that January's survey will incorporate such effect.

Looking ahead, we expect lower levels in consumer confidence given: (1) Lower consumption and private investment, as a result of the uncertainty surrounding the impact Trump's economic policies on the Mexican economy; and (2) higher inflation stemming from the significant depreciation of the Mexican currency.

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